

**REPORT OF THE AUDIT OF THE
GRAVES COUNTY
FISCAL COURT**

**For The Fiscal Year Ended
June 30, 2005**



**CRIT LUALLEN
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EXECUTIVE SUMMARY
AUDIT EXAMINATION OF THE
GRAVES COUNTY FISCAL COURT

June 30, 2005

The Auditor of Public Accounts has completed the audit of the Graves County Fiscal Court for fiscal year ended June 30, 2005.

We have issued unqualified opinions, based on our audit, on the governmental activities, business-type activities, each major fund, and aggregate remaining fund information financial statements of Graves County, Kentucky.

Financial Condition:

The fiscal court had net assets of \$41,436,689 as of June 30, 2005. The fiscal court had unrestricted net assets of \$962,489 and restricted net assets of \$395,776 in its governmental funds as of June 30, 2005, with total net assets of \$41,386,571. In its enterprise fund, total net cash and cash equivalents were \$50,118 with total net assets of \$50,118. The fiscal court had total debt principal as of June 30, 2005 of \$4,477,389 with \$527,959 due within the next year.

Deposits:

The fiscal court's deposits were insured and collateralized by bank securities.

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CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky
Honorable Ernie Fletcher, Governor
John R. Farris, Secretary
Finance and Administration Cabinet
Honorable Tony Smith, Graves County Judge/Executive
Members of the Graves County Fiscal Court

Independent Auditor's Report

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Graves County, Kentucky, as of and for the year ended June 30, 2005, which collectively comprise the County's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Graves County Fiscal Court. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Fiscal Court Audits issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As described in Note 1, Graves County, Kentucky, prepares its financial statements on a prescribed basis of accounting that demonstrates compliance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Graves County, Kentucky, as of June 30, 2005, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with the basis of accounting described in Note 1.

The county has not presented the management's discussion and analysis that the Governmental Accounting Standards Board (GASB) has determined is necessary to supplement, although not required to be part of, the basic financial statements. The budgetary comparison information is not a required part of the basic financial statements but is supplementary information required by GASB. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the budgetary comparison information. However, we did not audit it and express no opinion on it.



To the People of Kentucky
Honorable Ernie Fletcher, Governor
John R. Farris, Secretary
Finance and Administration Cabinet
Honorable Tony Smith, Graves County Judge/Executive
Members of the Graves County Fiscal Court

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Graves County, Kentucky's basic financial statements. The accompanying supplementary information, combining fund financial statements, is presented for additional analysis and is not a required part of the basic financial statements. The combining fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation of the basic financial statements taken as a whole.

In accordance with Government Auditing Standards, we have also issued our report dated June 20, 2006, on our consideration of Graves County, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", written in a cursive style.

Crit Luallen
Auditor of Public Accounts

Audit fieldwork completed -
June 20, 2006

GRAVES COUNTY OFFICIALS

For The Year Ended June 30, 2005

Fiscal Court Members:

Tony Smith	County Judge/Executive
Romey Holmes	Commissioner
Charles Reeves	Commissioner
Jeffrey Howard	Commissioner

Other Elected Officials:

John Cunningham	County Attorney
Randy Haley	Jailer
Barry Kennemore	County Clerk
Nedra Nall	Circuit Court Clerk
John Davis	Sheriff
Howell Carr	Property Valuation Administrator
Phillip McClain	Coroner

Appointed Personnel:

Vickie McClain	County Treasurer
Codie Courtney	Finance Officer

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GRAVES COUNTY
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS

June 30, 2005

GRAVES COUNTY
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS

June 30, 2005

	Primary Government		
	Governmental	Business-Type	
	Activities	Activities	Totals
ASSETS			
Current Assets:			
Cash and Cash Equivalents	\$ 1,358,265	\$ 50,118	\$ 1,408,383
Total Current Assets	<u>1,358,265</u>	<u>50,118</u>	<u>1,408,383</u>
Noncurrent Assets:			
Capital Assets - Net of Accumulated Depreciation			
Land and Land Improvements	276,270		276,270
Buildings	6,947,948		6,947,948
Other Equipment	111,512		111,512
Vehicles and Equipment	891,781		891,781
Infrastructure Assets - Net of Depreciation	<u>36,278,184</u>		<u>36,278,184</u>
Total Noncurrent Assets	<u>44,505,695</u>		<u>44,505,695</u>
Total Assets	<u>45,863,960</u>	<u>50,118</u>	<u>45,914,078</u>
LIABILITIES			
Current Liabilities:			
Bonds Payable	270,000		270,000
Financing Obligations Payable	<u>257,959</u>		<u>257,959</u>
Total Current Liabilities	<u>527,959</u>		<u>527,959</u>
Noncurrent Liabilities:			
Bonds Payable	2,065,000		2,065,000
Financing Obligations Payable	<u>1,884,430</u>		<u>1,884,430</u>
Total Noncurrent Liabilities	<u>3,949,430</u>		<u>3,949,430</u>
Total Liabilities	<u>4,477,389</u>		<u>4,477,389</u>
NET ASSETS			
Invested in Capital Assets, Net of Related Debt	40,028,306		40,028,306
Restricted For:			
Debt Service	395,776		395,776
Unrestricted	<u>962,489</u>	<u>50,118</u>	<u>1,012,607</u>
Total Net Assets	<u>\$ 41,386,571</u>	<u>\$ 50,118</u>	<u>\$ 41,436,689</u>

The accompanying notes are an integral part of the financial statements.

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GRAVES COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
For The Year Ended June 30, 2005

GRAVES COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2005

Functions/Programs	Expenses	Program Revenues Received			
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Primary Government:					
Governmental Activities :					
General Government	\$ 1,869,434	\$ 1,800	\$ 108,772	\$ 93,475	
Protection to Persons and Property	1,894,426	844,310	194,600	117,624	
General Health and Sanitation	146,817			119,280	
Social Services	14,272				
Recreation and Culture	178,920				
Roads	3,953,179		229,412	1,117,512	
Airports	11,334				
Interest on Long-term Debt	221,127	233,634			
Total Governmental Activities	8,289,509	1,079,744	532,784	1,447,891	
Jail Canteen	141,943	152,582			
Total Business-type Activities	141,943	152,582			
Total Primary Government	\$ 8,431,452	\$ 1,232,326	\$ 532,784	\$ 1,447,891	

General Revenues:

Taxes:
 Real Property Taxes
 Personal Property Taxes
 Motor Vehicle Taxes
 Other Taxes
 In Lieu of Tax Payments
 Excess Fees
 Legal Process
 Miscellaneous Revenues
 Accrued Interest Received
 Gain on Disposal of Capital Assets
 Transfers In (Out)

Total General Revenues and Transfers
 Change in Net Assets
 Net Assets - Beginning (Restated)
 Net Assets - Ending

The accompanying notes are an integral part of the financial statements.

GRAVES COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
For The Year Ended June 30, 2005
(Continued)

Net (Expenses) Revenues and Changes in Net Assets		
Primary Government		
Governmental Activities	Business-Type Activities	Totals
\$ (1,665,387)	\$	\$ (1,665,387)
(737,892)		(737,892)
(27,537)		(27,537)
(14,272)		(14,272)
(178,920)		(178,920)
(2,606,255)		(2,606,255)
(11,334)		(11,334)
12,507		12,507
(5,229,090)		(5,229,090)
	10,639	10,639
	10,639	10,639
(5,229,090)	10,639	(5,218,451)
1,071,812		1,071,812
15,355		15,355
188,773		188,773
1,622,816		1,622,816
100,150		100,150
264,322		264,322
193		193
566,681	85	566,766
6,522	43	6,565
55,648		55,648
9,392	(9,392)	
3,901,664	(9,264)	3,892,400
(1,327,426)	1,375	(1,326,051)
42,713,997	48,743	42,762,740
\$ 41,386,571	\$ 50,118	\$ 41,436,689

The accompanying notes are an integral part of the financial statements.

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GRAVES COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

June 30, 2005

GRAVES COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

June 30, 2005

	General Fund	Road Fund	Jail Fund	Jail Escrow Fund
ASSETS				
Cash and Cash Equivalents	\$ 251,758	\$ 52,236	\$ 5,116	\$ 642,934
Total Assets	<u>\$ 251,758</u>	<u>\$ 52,236</u>	<u>\$ 5,116</u>	<u>\$ 642,934</u>
FUND BALANCES				
Unreserved:				
General Fund	\$ 251,758	\$	\$	\$
Special Revenue Funds		52,236	5,116	642,934
Debt Service Fund				
Total Fund Balances	<u>\$ 251,758</u>	<u>\$ 52,236</u>	<u>\$ 5,116</u>	<u>\$ 642,934</u>

The accompanying notes are an integral part of the financial statements.

GRAVES COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
June 30, 2005
(Continued)

<u>Building Commission</u>	<u>Non- Major Funds</u>	<u>Total Governmental Funds</u>
\$ 395,776	\$ 10,445	\$ 1,358,265
<u>\$ 395,776</u>	<u>\$ 10,445</u>	<u>\$ 1,358,265</u>

\$	\$	\$ 251,758
	10,445	710,731
395,776		395,776
<u>\$ 395,776</u>	<u>\$ 10,445</u>	<u>\$ 1,358,265</u>

Reconciliation of the Balance Sheet-Governmental Funds to the Statement of Net Assets:

Total Fund Balances	\$ 1,358,265
Amounts Reported for Governmental Activities in the Statement of Net Assets Are Different Because:	
Capital Assets Used in Governmental Activities Are Not Financial Resources And Therefore Are Not Reported in the Funds.	140,596,586
Depreciation	(96,090,891)
Long-term Debt Is Not Due and Payable in the Current Period and, Therefore, Is Not Reported in the Funds.	
Due Within One Year - Bonds and Financing Obligation Principal	(527,959)
Due In More Than One Year - Bonds and Financing Obligation Principal	<u>(3,949,430)</u>
Net Assets Of Governmental Activities	<u>\$ 41,386,571</u>

The accompanying notes are an integral part of the financial statements.

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GRAVES COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

For The Year Ended June 30, 2005

GRAVES COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

For The Year Ended June 30, 2005

	<u>General Fund</u>	<u>Road Fund</u>	<u>Jail Fund</u>
REVENUES			
Taxes	\$ 2,898,756	\$	\$
In Lieu Tax Payments	100,150		
Excess Fees	264,322		
Licenses and Permits	93,475		
Intergovernmental	383,498	1,327,479	317,508
Charges for Services			21,990
Miscellaneous	72,121	74,176	11,430
Interest	372	103	9
Total Revenues	<u>3,812,694</u>	<u>1,401,758</u>	<u>350,937</u>
EXPENDITURES			
General Government	761,876		
Protection to Persons and Property	259,266		1,195,802
General Health and Sanitation	146,802		
Social Services	14,272		
Recreation and Culture	189,970		
Roads		2,772,680	
Airports	11,334		
Debt Service	13,371	45,165	
Administration	845,835	68,701	117,693
Total Expenditures	<u>2,242,726</u>	<u>2,886,546</u>	<u>1,313,495</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>1,569,968</u>	<u>(1,484,788)</u>	<u>(962,558)</u>
Other Financing Sources (Uses)			
Proceeds from Disposal of Capital Assets		552,754	
Transfers From Other Funds	440,000	984,500	969,392
Transfers To Other Funds	(2,299,050)		
Total Other Financing Sources (Uses)	<u>(1,859,050)</u>	<u>1,537,254</u>	<u>969,392</u>
Net Change in Fund Balances	(289,082)	52,466	6,834
Fund Balances - Beginning	540,840	(230)	(1,718)
Fund Balances - Ending	<u>\$ 251,758</u>	<u>\$ 52,236</u>	<u>\$ 5,116</u>

The accompanying notes are an integral part of the financial statements.

GRAVES COUNTY
STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
For The Year Ended June 30, 2005
(Continued)

Jail Escrow Fund	Building Commission	Non- Major Funds	Total Governmental Funds
\$	\$	\$	\$ 2,898,756
			100,150
			264,322
			93,475
704,377	233,634	43,704	3,010,200
			21,990
		343,901	501,628
444	5,520	73	6,521
<u>704,821</u>	<u>239,154</u>	<u>387,678</u>	<u>6,897,042</u>
			761,876
		409,774	1,864,842
		15	146,817
			14,272
			189,970
			2,772,680
			11,334
	384,660	343,901	787,097
4,536	1,505	5,980	1,044,250
<u>4,536</u>	<u>386,165</u>	<u>759,670</u>	<u>7,593,138</u>
<u>700,285</u>	<u>(147,011)</u>	<u>(371,992)</u>	<u>(696,096)</u>
			552,754
	149,624	400,550	2,944,066
(569,624)		(66,000)	(2,934,674)
<u>(569,624)</u>	<u>149,624</u>	<u>334,550</u>	<u>562,146</u>
130,661	2,613	(37,442)	(133,950)
512,273	393,163	47,887	1,492,215
<u>\$ 642,934</u>	<u>\$ 395,776</u>	<u>\$ 10,445</u>	<u>\$ 1,358,265</u>

The accompanying notes are an integral part of the financial statements.

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**GRAVES COUNTY
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS**

For The Year Ended June 30, 2005

**GRAVES COUNTY
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS**

For The Year Ended June 30, 2005

Net Change in Fund Balances - Total Governmental Funds	\$ (133,950)
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Amounts Reported for Governmental Activities in the Statement
of Net Assets Are Different Because:

Governmental Funds Report Capital Outlays as Expenditures. However, in
the Statement of Activities the Cost of those Assets Are Allocated
over Their Estimated Useful Lives and Reported as Depreciation Expense.

Proceeds from Sale of Capital Asset	(552,754)
Gain on Sale of Capital Asset	55,648
Capital Outlay	2,194,958
Depreciation Expense	(3,457,298)

Lease and Bond Principal Payments Are Expensed in the Governmental Funds
as a Use of Current Financial Resources.

Financing Obligations Principal Amount	310,970
Bond Principal Payments	255,000

Change in Net Assets of Governmental Activities	\$ (1,327,426)
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GRAVES COUNTY
STATEMENT OF NET ASSETS - PROPRIETARY FUND - MODIFIED CASH BASIS

June 30, 2005

GRAVES COUNTY
STATEMENT OF NET ASSETS - PROPRIETARY FUND - MODIFIED CASH BASIS

June 30, 2005

	Business-Type Activities
	Enterprise Fund
	Jail Canteen Fund
Assets	
Current Assets:	
Cash and Cash Equivalents	\$ 50,118
Total Current Assets	<u>50,118</u>
 Total Assets	 <u>50,118</u>
 Net Assets	
Unrestricted	50,118
Total Net Assets	<u><u>\$ 50,118</u></u>

The accompanying notes are an integral part of the financial statements.

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GRAVES COUNTY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS -
PROPRIETARY FUND - MODIFIED CASH BASIS

For The Year Ended June 30, 2005

GRAVES COUNTY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS -
PROPRIETARY FUND - MODIFIED CASH BASIS

For The Year Ended June 30, 2005

	Business-Type Activities Enterprise Fund Jail Canteen Fund
Operating Revenues	
Canteen Receipts	\$ 152,582
Miscellaneous Receipts	85
Total Operating Revenues	<u>152,667</u>
Operating Expenses	
Commissary Supplies	77,453
Educational and Recreational	4,940
Miscellaneous	9,701
Total Operating Expenses	<u>92,094</u>
Operating Income	<u>60,573</u>
Nonoperating Revenues (Expenses)	
Interest Income	43
Room and Board	(35,510)
Inmate Refunds	(14,339)
Net Nonoperating Expenses	<u>(49,806)</u>
Income Before Transfers	10,767
Transfers Out	(9,392)
Change In Net Assets	1,375
Total Net Assets - Beginning	<u>48,743</u>
Total Net Assets - Ending	<u>\$ 50,118</u>

The accompanying notes are an integral part of the financial statements.

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GRAVES COUNTY
STATEMENT OF CASH FLOWS - PROPRIETARY FUND - MODIFIED CASH BASIS
For The Year Ended June 30, 2005

GRAVES COUNTY
STATEMENT OF CASH FLOWS - PROPRIETARY FUND - MODIFIED CASH BASIS

For The Year Ended June 30, 2005

	Business-Type Activities <hr/> Enterprise Fund <hr/> Jail Canteen Fund <hr/>
Cash Flows From Operating Activities	
Canteen Receipts	\$ 152,582
Miscellaneous Receipts	85
Commissary Supplies	(77,453)
Educational and Recreational	(4,940)
Miscellaneous Disbursements	(9,701)
Net Cash Provided By Operating Activities	<hr/> 60,573 <hr/>
Cash Flows From Noncapital Financing Activities	
Room and Board	(35,510)
Inmate Refunds on Accounts	(14,339)
Net Cash (Used) By Noncapital Financing Activities	<hr/> (49,849) <hr/>
Cash Flows From Capital and Related Financing Activities	
Transfer to Jail Fund	(9,392)
Net Cash (Used) By Capital and Related Financing Activities	<hr/> (9,392) <hr/>
Cash Flows From Investing Activities	
Interest Earned	43
Net Cash Provided By Investing Activities	<hr/> 43 <hr/>
Net Increase in Cash and Cash Equivalents	1,375
Cash and Cash Equivalents - July 1, 2004	48,743
Cash and Cash Equivalents - June 30, 2005	<hr/> \$ 50,118 <hr/>
Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities	
Operating Income	\$ 60,573
Net Cash Provided By Operating Activities	<hr/> \$ 60,573 <hr/>

The accompanying notes are an integral part of the financial statements.

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TO THE FINANCIAL STATEMENTS**

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GRAVES COUNTY
NOTES TO FINANCIAL STATEMENTS

June 30, 2005

Note 1. Summary of Significant Accounting Policies

A. Basis of Presentation

The county presents its government-wide and fund financial statements in accordance with a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, assets, liabilities, and related revenues and expenditures are recorded when they result from cash transactions, with a few exceptions. This modified cash basis recognizes revenues when received and expenditures when paid. Property tax receivables, accounts payable, compensated absences, and donated assets are not reflected in the financial statements.

The State Local Finance Officer does not require the county to report capital assets and infrastructure; however the value of these assets is included in the Statement of Net Assets and the corresponding depreciation expense is included on the Statement of Activities.

B. Reporting Entity

The financial statements of Graves County include the funds, agencies, boards, and entities for which the fiscal court is financially accountable. Financial accountability, as defined by Section 2100 of the Governmental Accounting Standards Board (GASB) Codification of Governmental Accounting and Financial Reporting Standards, as amended by GASB 14 and GASB 39, was determined on the basis of the government's ability to significantly influence operations, select the governing authority, participate in fiscal management and the scope of public service. Consequently, the reporting entity includes organizations that are legally separate from the primary government. Legally separate organizations are reported as component units if either the county is financially accountable or the organization's exclusion would cause the county's financial statements to be misleading or incomplete. Component units may be blended or discretely presented. Blended component units either provide their services exclusively or almost entirely to the primary government, or their governing bodies are substantively the same as the primary government.

Blended Component Units

The following legally separate organization provides its services exclusively to the primary government, and the fiscal court is able to impose its will on this organization. These organization's balances and transactions are reported as though they are part of the county's primary government using the blending method.

Building Commission Fund

This fund accounts for the debt service requirements of refunding bonds of the County as a Debt Service Fund. Debt service funds are to account for the accumulation of resources for, and the payment of general long-term debt principal and interest. The Governor's Office for Local Development does not require the County to report or budget these funds. However, the County decided to include the Building Commission Fund as part of the primary government as a blended component unit of the county.

GRAVES COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2005
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

B. Reporting Entity (Continued)

Kentucky law provides for election of the officials below from the geographic area constituting Graves County. Pursuant to state statute, these officials perform various services for the Commonwealth of Kentucky, its judicial courts, the fiscal court, various cities and special districts within the county, and the board of education. In exercising these responsibilities, however, they are required to comply with state laws. Audits of their financial statements are issued separately and individually and can be obtained from their respective administrative offices.

Additional Graves County Elected Officials

- Circuit Court Clerk
- County Attorney
- Property Valuation Administrator
- County Clerk
- County Sheriff

C. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government and its non-fiduciary component units. For the most part, the effect of interfund activities has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on sales, fees, and charges for support. Business-type revenues come mostly from fees charged to external parties for goods or services. Fiduciary funds are not included in these financial statements due to the unavailability of fiduciary funds to aid in the support of government programs.

The statement of net assets presents the reporting entity's non-fiduciary assets and liabilities, the difference between the two being reported as net assets. Net assets are reported in three categories: 1) invested in capital assets, net of related debt - consisting of capital assets, net of accumulated depreciation and reduced by outstanding balances for debt related to the acquisition, construction, or improvement of those assets; 2) restricted net assets - resulting from constraints placed on net assets by creditors, grantors, contributors, and other external parties, including those constraints imposed by law through constitutional provisions or enabling legislation; and 3) unrestricted net assets - those assets that do not meet the definition of restricted net assets or invested in capital assets.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include: 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function; 2) operating grants and contributions; and 3) capital grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Internally dedicated resources such as taxes and unrestricted state funds are reported as general revenues.

GRAVES COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2005
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

C. Government-wide and Fund Financial Statements (Continued)

Funds are characterized as either major or non-major. Major funds are those whose assets, liabilities, revenues, or expenditures/expenses are at least ten percent of the corresponding total (assets, liabilities, etc.) for all funds or type (governmental or proprietary) and whose total assets, liabilities, revenues, or expenditures/expenses are at least five percent of the corresponding total for all governmental and enterprise funds combined. The fiscal court may also designate any fund as major.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major enterprise funds are reported as separate columns in the financial statements.

Governmental Funds

The primary government reports the following major governmental funds:

General Fund - This is the primary operating fund of the fiscal court. It accounts for all financial resources of the general government, except where the Governor's Office for Local Development requires a separate fund or where management requires that a separate fund be used for some function.

Road Fund - This fund is for road and bridge construction and repair. The primary source of revenue for this fund is state payments for truck license distribution, municipal road aid, and transportation grants. The Governor's Office for Local Development requires the fiscal court to maintain these receipts and expenditures separately from the General Fund.

Jail Fund - The primary purpose of this fund is to account for the jail expenses of the county. The primary sources of revenue for this fund are reimbursements from the state and federal government, payments from other counties for housing prisoners, and transfers from the General Fund. The Governor's Office for Local Development requires the fiscal court to maintain these receipts and expenditures separately from the General Fund.

Jail Escrow Fund - The purpose of this fund is to account for debt service requirements of general obligation bonds of the fiscal court.

Building Commission Fund - The purpose of this fund is to account for debt service payments for the Courthouse renovation and Jail renovation projects for 1996. The Governor's Office for Local Development does not require the fiscal court to report or budget these funds.

The primary government also has the following non-major funds: Local Government Economic Assistance Fund, Disaster and Emergency Services Fund, Adult and Juvenile Housing Fund, and Industrial Development Fund.

Special Revenue Funds:

The Road Fund, Jail Fund, Jail Escrow Fund, Local Government Economic Assistance Fund, Disaster and Emergency Services Fund, Adult and Juvenile Housing Fund, and Industrial Development Fund are presented as special revenue funds. Special revenue funds are to account for the proceeds of specific revenue sources and expenditures that are legally restricted for specific purposes.

GRAVES COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2005
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

C. Government-wide and Fund Financial Statements (Continued)

Governmental Funds (Continued)

Debt Service Fund:

The Graves County Building Commission is presented as a debt service fund. A debt service fund is used to account for the accumulation of resources for, and the payment of general long-term debt principal and interest.

Generally and except as otherwise provided by law, property taxes are assessed as of January 1, levied (mailed) November 1, due at discount November 30, due at face value December 31, delinquent January 1 following the assessment, and subject to lien and sale the 3rd Saturday in April following the delinquency date.

Proprietary Funds

All proprietary funds are reported using the economic resources measurement focus and the modified cash basis of accounting. Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with proprietary funds' principal ongoing operations. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. The principal operating revenues of the county's enterprise funds are charges to customers for sales in the Jail Canteen Fund. Operating expenses for the enterprise funds include the cost of sales and services, administrative expenses, and expenses for the education and recreation of prisoners. The government has elected not to adopt Financial Accounting Standards Board (FASB) Statements or Interpretations issued after November 30, 1989, unless the Governmental Accounting Standards Board (GASB) specifically adopts such FASB Statements or Interpretations.

The primary government reports the following major proprietary fund:

Jail Canteen Fund - The canteen operations are authorized pursuant to KRS 441.135(1), which allows the jailer to sell snacks, sodas, and other items to inmates. The profits generated from the sale of those items are to be used for the benefit or recreation of the inmates. KRS 441.135(2) requires the jailer to maintain accounting records and report annually to the county treasurer the receipts and disbursements of the Jail Canteen Fund.

D. Deposits and Investments

The government's cash and cash equivalents are considered to be cash on hand, demand deposits, certificates of deposit, and short-term investments with original maturities of three months or less from the date of acquisition.

KRS 66.480 authorizes the county to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

GRAVES COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2005
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

E. Capital Assets

Capital assets, which include land, land improvements, buildings, furniture and office equipment, building improvements, machinery, equipment, and infrastructure assets (roads and bridges) that have a useful life of more than one reporting period based on the government's capitalization policy, are reported in the applicable governmental or business-type activities of the government-wide financial statements. Such assets are recorded at historical cost or estimated historical cost when purchased or constructed.

Cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are not capitalized. Land and Construction In Progress are not depreciated. Interest incurred during construction is not capitalized. Capital assets and infrastructure are depreciated using the straight-line method of depreciation over the estimated useful life of the asset.

	Capitalization Threshold	Useful Life (Years)
Land Improvements	\$ 25,000	10-60
Buildings and Building Improvements	\$ 50,000	10-75
Machinery and Equipment	\$ 5,000	3-25
Vehicles	\$ 5,000	3-25
Infrastructure	\$ 25,000	10-50

F. Long-term Obligations

In the government-wide financial statements and proprietary funds in the fund financial statements, long term debt and other long-term obligations are reported as liabilities in the applicable financial statements. The principal amount of bonds and financing obligations are reported.

In the fund financial statements, governmental funds recognize bond interest, as well as bond issuance costs when received or when paid, during the current period. The principal amount of the debt and interest are reported as expenditures. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures. Debt proceeds are reported as other financing sources.

G. Fund Equity

In the fund financial statements, the difference between the assets and liabilities of governmental funds is reported as fund balance. Fund balance is divided into reserved and unreserved components, with unreserved considered available for new spending. Unreserved fund balances may be divided into designated and undesignated portions. Designations represent fiscal court's intended use of the resources and should reflect actual plans approved by the fiscal court.

Governmental funds report reservations of fund balance for amounts that are legally restricted by outside parties for use for a specific purpose, long-term receivables, and encumbrances.

GRAVES COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2005
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

H. Budgetary Information

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

The State Local Finance Officer does not require the Jail Canteen Fund or the Building Commission Fund to be budgeted.

I. Related Organizations, Joint Ventures, and Jointly Governed Organizations

A related organization is an entity for which a primary government is not financially accountable. It does not impose will or have a financial benefit or burden relationship, even if the primary government appoints a voting majority of the related organization's governing board. Based on these criteria, the following are considered related organizations of Graves County Fiscal Court: Consumer Water District, South Graves Water District, Hickory Water District, Hardeman Water District, Fancy Farm Water District, and Symsonia Water District.

A legal entity or other organization that results from a contractual agreement and that is owned, operated, or governed by two or more participants as a separate activity subject to joint control, in which the participants retain (a) an ongoing financial interest or (b) an ongoing financial responsibility is a joint venture. Based upon these criteria, the following are considered joint ventures of the Graves County Fiscal Court: Mayfield-Graves County Parks and Recreation, Mayfield-Graves County Ambulance Service, Mayfield-Graves County Senior Citizens, Graves Growth Alliance, Inc., and Purchase Area Regional Industrial Authority.

Mayfield-Graves County Parks and Recreation

The Graves County Fiscal Court (Fiscal Court) has retained an ongoing financial responsibility for the Mayfield-Graves County Parks and Recreation. The Mayfield-Graves County Parks and Recreation is a joint venture between Fiscal Court and the City of Mayfield "to provide a centralized recreational facilities" within the county and the city. The Fiscal Court and the City of Mayfield are each responsible for fifty percent of the basic administration included in the budget of the Mayfield-Graves County Parks and Recreation. During fiscal year 2005, the Fiscal Court paid the Mayfield-Graves County Parks and Recreation \$35,000.

Mayfield-Graves County Ambulance Service

The Graves County Fiscal Court (Fiscal Court) has retained an ongoing financial responsibility for the Mayfield-Graves County Ambulance Service. The Mayfield-Graves County Ambulance Service is a joint venture between Fiscal Court and the City of Mayfield "to provide a medical services" within the county and the city. The Fiscal Court and the City of Mayfield are each responsible for fifty percent of the basic administration included in the budget of the Mayfield-Graves County Ambulance Service.

GRAVES COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2005
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

I. Related Organizations, Joint Ventures, and Jointly Governed Organizations (Continued)

Mayfield-Graves County Senior Citizens

The Graves County Fiscal Court (Fiscal Court) has retained an ongoing financial responsibility for the Mayfield-Graves County Senior Citizens. The Mayfield-Graves County Senior Citizens is a joint venture between Fiscal Court and the City of Mayfield “to provide a centralized recreational facilities for the elderly” within the county and the city. The Fiscal Court and the City of Mayfield are each responsible for fifty percent of the basic administration included in the budget of the Mayfield-Graves County Senior Citizens. During fiscal year 2005, the Fiscal Court paid the Mayfield-Graves County Senior Citizens \$7,500.

Graves Growth Alliance, Inc.

The Graves County Fiscal Court (Fiscal Court) has retained an ongoing financial responsibility for the Graves Growth Alliance, Inc. The Graves Growth Alliance, Inc. is a joint venture between Fiscal Court and the City of Mayfield. The Fiscal Court and the City of Mayfield are each responsible for fifty percent of the basic administration included in the budget of the Graves Growth Alliance, Inc.

Purchase Area Regional Industrial Authority

The Graves County Fiscal Court (Fiscal Court) has retained an ongoing financial responsibility for the Purchase Area Regional Industrial Authority. The Purchase Area Regional Industrial Authority is a joint venture between Fiscal Court and the City of Mayfield “for the purpose of acquiring and developing land and marketing sites to stimulate and promote economic development in the county”. The Fiscal Court and the City of Mayfield are each responsible for fifty percent of the basic administration included in the budget of the Purchase Area Regional Industrial Authority.

Note 2. Deposits

The primary government maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the government and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the government’s deposits may not be returned. The government does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of June 30, 2005, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

GRAVES COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2005
(Continued)

Note 3. Capital Assets

Capital asset activity for the year ended June 30, 2005 was as follows:

	Reporting Entity			
	Beginning Balance	Increases	Decreases	Ending Balance
Primary Government:				
<u>Governmental Activities:</u>	(Restated)			
Capital Assets Not Being Depreciated:				
Land and Land Improvements	\$ 195,300	\$ 80,970	\$	\$ 276,270
Total Capital Assets Not Being Depreciated	195,300	80,970		276,270
Capital Assets, Being Depreciated:				
Buildings	12,900,300			12,900,300
Other Equipment	248,418	58,166		306,584
Vehicles and Equipment	1,777,810	557,364	(503,106)	1,832,068
Infrastructure	123,782,906	1,498,458		125,281,364
Total Capital Assets Being Depreciated	138,709,434	2,113,988	(503,106)	140,320,316
Less Accumulated Depreciation For:				
Buildings	(5,805,022)	(147,330)		(5,952,352)
Other Equipment	(180,082)	(14,990)		(195,072)
Vehicles and Equipment	(808,234)	(138,053)	6,000	(940,287)
Infrastructure	(85,846,255)	(3,156,925)		(89,003,180)
Total Accumulated Depreciation	(92,639,593)	(3,457,298)	6,000	(96,090,891)
Total Capital Assets, Being Depreciated, Net	46,069,841	(1,343,310)	(497,106)	44,229,425
Governmental Activities Capital Assets, Net	\$ 46,265,141	\$ (1,262,340)	\$ (497,106)	\$ 44,505,695

Depreciation expense was charged to functions of the primary government as follows:

<u>Governmental Activities:</u>	
General Government	\$ 63,306
Protection to Persons and Property	114,583
Recreation and Culture	69,920
Roads, Including Depreciation of General Infrastructure Assets	3,209,489
Total Depreciation Expense - Governmental Activities	<u>\$ 3,457,298</u>

GRAVES COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2005
(Continued)

Note 4. Long-term Debt

A. Courthouse Facility First Mortgage Revenue Bonds, Series 1996A

On December 1, 1996 the Graves County Building Commission issued first mortgage refunding revenue bonds, series 1996A in the amount of \$2,555,000 for the purpose of discharging the outstanding bond series 1990 and 1991 Court Facilities Project. The Kentucky Administrative Office of the Courts (AOC) agreed to pay \$233,000 annually for the principal and interest of these bonds directly to the paying agent. If the payment from AOC is not sufficient to meet the principal and interest requirements of the bonds, the county is liable for the remainder.

Bond principal and interest requirements as of June 30, 2005 are:

<u>Fiscal Year Ended June 30</u>	<u>Scheduled Interest</u>	<u>Principal</u>
2006	\$ 73,013	\$ 155,000
2007	65,340	160,000
2008	57,420	170,000
2009	49,005	175,000
2010	40,343	185,000
2011-2015	<u>52,718</u>	<u>630,000</u>
Totals	<u>\$ 337,839</u>	<u>\$ 1,475,000</u>

B. Detention Facility First Mortgage Revenue Bonds, Series 1996B

On December 1, 1996, the Graves County Building Commission issued first mortgage refunding revenue bonds, series 1996B in the amount of \$1,700,000 for the purpose of discharging the outstanding bond series 1991 Detention Facilities Project. The Graves County Building Commission and Graves County have entered into an annually renewable lease, dated December 1, 1996, wherein Graves County will lease from the Graves County Building Commission the project and project site, at an agreed rental, the proceeds of which will be used to pay principal and interest on the bonds.

Bond principal and interest requirements as of June 30, 2005 are:

<u>Fiscal Year Ended June 30</u>	<u>Scheduled Interest</u>	<u>Principal</u>
2006	\$ 43,860	\$ 115,000
2007	37,995	125,000
2008	31,620	130,000
2009	24,990	135,000
2010	18,105	140,000
2029-2030	<u>14,535</u>	<u>215,000</u>
Totals	<u>\$ 171,105</u>	<u>\$ 860,000</u>

GRAVES COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2005
(Continued)

Note 4. Long-term Debt (Continued)

C. Road Trucks

On March 1, 2004, the Graves County Fiscal Court entered into a \$480,000 financing obligation agreement at a rate of 3.25 percent to purchase six (6) trucks for the road department.

Future principal and interest requirements are:

<u>Fiscal Year Ended June 30</u>	<u>Scheduled Interest</u>	<u>Principal Amount</u>
2006	\$ 17,300	\$
2007	16,700	480,000
Totals	<u>\$ 34,000</u>	<u>\$ 480,000</u>

D. Wastewater Treatment Facility

On February 1, 1990, the Graves County Fiscal Court entered into an agreement with the Kentucky Infrastructure Authority (KIA) in order to construct a wastewater treatment facility for Pilgrims Pride (formerly known as Seaboard Farms, Inc.). The Graves County Fiscal Court also entered into an agreement with Pilgrims Pride for rental payments equal to the loan payments. However, if the rental payments from Pilgrims Pride are not sufficient to pay loan payments, the Graves County Fiscal Court is liable.

Future principal and interest requirements are:

<u>Fiscal Year Ended June 30</u>	<u>Scheduled Interest</u>	<u>Principal Amount</u>
2006	\$ 49,701	\$ 212,968
2007	41,752	220,487
2008	33,523	228,272
2009	25,003	236,331
2010	16,182	244,675
2011	7,049	253,315
Totals	<u>\$ 173,210</u>	<u>\$ 1,396,048</u>

GRAVES COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2005
(Continued)

Note 4. Long-term Debt (Continued)

E. Wastewater Treatment Facility

On December 1, 1995, the Graves County Fiscal Court entered into an agreement with the Kentucky Infrastructure Authority (KIA) in order to construct a wastewater treatment facility for Recycled Paper Shavings, Inc. The Graves County Fiscal Court also entered into an agreement with Recycled Paper Shavings, Inc. for rental payments equal to the loan payments. However, if the rental payments from Recycled Paper Shavings, Inc. are not sufficient to pay loan payments, the Graves County Fiscal Court is liable.

Future principal and interest requirements are:

<u>Fiscal Year Ended June 30</u>	<u>Scheduled Interest</u>	<u>Principal Amount</u>
2006	\$ 8,778	\$ 44,991
2007	7,218	46,460
2008	5,607	47,978
2009	3,943	49,545
2010	2,225	51,163
2011	452	26,204
Totals	<u>\$ 28,223</u>	<u>\$ 266,341</u>

F. Changes In Long-term Liabilities

Long-term liability activity for the year ended June 30, 2005, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Primary Government:	(Restated)				
<u>Governmental Activities:</u>					
Revenue Refunding Bonds	\$ 2,590,000	\$	\$ 255,000	\$ 2,335,000	\$ 270,000
Financing Obligations	<u>2,453,359</u>		<u>310,970</u>	<u>2,142,389</u>	<u>257,959</u>
Governmental Activities					
Long-term Liabilities	<u>\$ 5,043,359</u>	<u>\$ 0</u>	<u>\$ 565,970</u>	<u>\$ 4,477,389</u>	<u>\$ 527,959</u>

Note 5. Interest On Long-term Debt and Financing Obligations

Debt Service on the Statement of Activities includes \$91,467 in interest on financing obligations and \$129,660 in interest on bonds.

GRAVES COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2005
(Continued)

Note 6. Employee Retirement System

The fiscal court has elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost sharing, multiple-employer, defined benefit pension plan, which covers all eligible full-time employees and provides for retirement, disability, and death benefits to plan members. Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 8.48 percent.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, KY 40601-6124, or by telephone at (502) 564-4646.

Note 7. Deferred Compensation

The Graves County Fiscal Court voted to allow all eligible employees to participate in deferred compensation plans administered by The Kentucky Public Employees' Deferred Compensation Authority. The Kentucky Public Employees' Deferred Compensation Authority is authorized under KRS 18A.230 to 18A.275 to provide administration of tax sheltered supplemental retirement plans for all state, public school and university employees and employees of local political subdivisions that have elected to participate. These deferred compensation plans permit all full time employees to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. Participation by eligible employees in the deferred compensation plans is voluntary.

Historical trend information showing The Kentucky Public Employees' Deferred Compensation Authority's progress in accumulating sufficient assets to pay benefits when due is presented in The Kentucky Public Employees' Deferred Compensation Authority's annual financial report. This report may be obtained by writing Kentucky Public Employees' Deferred Compensation Authority at 105 Sea Hero Road, Suite 1, Frankfort, KY 40601-8862, or by telephone at (502) 573-7925.

Note 8. Insurance

For the fiscal year ended June 30, 2005, Graves County was a member of the Kentucky Association of Counties' All Lines Fund (KALF). KALF is a self-insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public officials' errors and omissions, public liability, and other damages. The basic nature of a self-insurance program is that of a collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for payment of the excess losses.

GRAVES COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2005
(Continued)

Note 9. Prior Period Adjustments

The net assets as previously reported have been restated due to inclusion of the payroll revolving account as part of the General Fund in the current year. Also, outstanding principal on financing obligations was understated while capital assets of the governmental funds were overstated in the prior year.

	Governmental Funds	Business- Type Funds
Net Assets, June 30, 2004	\$ 45,886,535	\$ 48,743
Payroll Revolving Fund	42,842	
Financing Obligations	(3,283)	
Totals	45,926,094	48,743
Capital Assets	(3,212,097)	
Restated Net Assets, June 30, 2004	<u>\$ 42,713,997</u>	<u>\$ 48,743</u>

Note 10. Estimated Infrastructure Historical Cost

Historical cost of infrastructure placed in service prior to the fiscal year ended June 30, 2004, (year of GASB 34 implementation) is an estimate. For those assets, the primary government estimated the year infrastructure was built by determining when a major reconstruction had been done on infrastructure. This estimate was used to calculate the infrastructure historical cost by determining current year construction cost and deflating it back to the estimated year of construction or reconstruction. Estimated infrastructure historical cost includes infrastructure placed in service from fiscal year 1984 through the current fiscal year. All infrastructure assets placed in service during the fiscal year ended June 30, 2004, and thereafter are recorded at actual historical cost.

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GRAVES COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2005

GRAVES COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis

For The Year Ended June 30, 2005

	GENERAL FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Taxes	\$ 2,925,000	\$ 2,990,400	\$ 2,898,756	\$ (91,644)
In Lieu Tax Payments	49,000	109,000	100,150	(8,850)
Excess Fees	244,724	264,724	264,322	(402)
Licenses and Permits	75,350	91,875	93,475	1,600
Intergovernmental Revenue	72,400	145,400	383,498	238,098
Miscellaneous	71,800	305,020	72,121	(232,899)
Interest	1,000	1,000	372	(628)
Total Revenues	3,439,274	3,907,419	3,812,694	(94,725)
EXPENDITURES				
General Government	690,360	799,953	761,876	38,077
Protection to Persons and Property	142,607	296,337	259,266	37,071
General Health and Sanitation	32,800	154,081	146,802	7,279
Social Services	11,200	16,400	14,272	2,128
Recreation and Culture	109,000	109,000	189,970	(80,970)
Airports	15,000	15,577	11,334	4,243
Debt Service	10,029	13,429	13,371	58
Capital Projects	42,975			
Administration	662,102	949,761	845,835	103,926
Total Expenditures	1,716,073	2,354,538	2,242,726	111,812
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	1,723,201	1,552,881	1,569,968	17,087
OTHER FINANCING SOURCES (USES)				
Transfers From Other Funds	295,530	295,530	440,000	144,470
Transfers To Other Funds	(2,268,731)	(2,346,511)	(2,299,050)	47,461
Total Other Financing Sources (Uses)	(1,973,201)	(2,050,981)	(1,859,050)	191,931
Net Changes in Fund Balance	(250,000)	(498,100)	(289,082)	209,018
Fund Balance - Beginning	250,000	498,100	540,840	42,740
Fund Balance - Ending	\$ 0	\$ 0	\$ 251,758	\$ 251,758

GRAVES COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2005
(Continued)

ROAD FUND				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental Revenue	\$ 1,343,190	\$ 1,360,190	\$ 1,327,479	\$ (32,711)
Miscellaneous	60,200	635,200	74,176	(561,024)
Interest		100	103	3
Total Revenues	1,403,390	1,995,490	1,401,758	(593,732)
EXPENDITURES				
Roads	2,370,511	2,427,611	2,772,680	(345,069)
Debt Service	44,000	579,000	45,165	533,835
Administration	77,000	77,000	68,701	8,299
Total Expenditures	2,491,511	3,083,611	2,886,546	197,065
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	(1,088,121)	(1,088,121)	(1,484,788)	(396,667)
OTHER FINANCING SOURCES (USES)				
Proceeds from Sale of Capital Asset			552,754	552,754
Transfers From Other Funds	1,088,121	1,088,121	984,500	(103,621)
Total Other Financing Sources (Uses)	1,088,121	1,088,121	1,537,254	449,133
Net Changes in Fund Balance			52,466	52,466
Fund Balance - Beginning			(230)	(230)
Fund Balance - Ending	\$ 0	\$ 0	\$ 52,236	\$ 52,236

GRAVES COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2005
(Continued)

JAIL FUND				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental Revenue	\$ 182,725	\$ 304,757	\$ 317,508	\$ 12,751
Charges for Services	10,000	24,500	21,990	(2,510)
Miscellaneous	5,000	28,000	11,430	(16,570)
Interest		20	9	(11)
Total Revenues	197,725	357,277	350,937	(6,340)
EXPENDITURES				
Protection to Persons and Property	1,010,423	1,207,423	1,195,802	11,621
Administration	111,483	122,483	117,693	4,790
Total Expenditures	1,121,906	1,329,906	1,313,495	16,411
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)				
	(924,181)	(972,629)	(962,558)	10,071
OTHER FINANCING SOURCES (USES)				
Transfers From Other Funds	924,181	970,829	969,392	(1,437)
Total Other Financing Sources (Uses)	924,181	970,829	969,392	(1,437)
Net Changes in Fund Balance				
		(1,800)	6,834	8,634
Fund Balance - Beginning		1,800	(1,718)	(3,518)
Fund Balance - Ending				
	\$ 0	\$ 0	\$ 5,116	\$ 5,116

GRAVES COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2005
(Continued)

JAIL ESCROW FUND				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental Revenue	\$ 455,000	\$ 700,000	\$ 704,377	\$ 4,377
Interest Earned		500	444	(56)
Total Revenues	455,000	700,500	704,821	4,321
EXPENDITURES				
Debt Service	159,470	159,470		159,470
Administration		711,852	4,536	707,316
Total Expenditures	159,470	871,322	4,536	866,786
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	295,530	(170,822)	700,285	871,107
OTHER FINANCING SOURCES (USES)				
Transfers To Other Funds	(295,530)	(342,178)	(569,624)	(227,446)
Total Other Financing Sources (Uses)	(295,530)	(342,178)	(569,624)	(227,446)
Net Changes in Fund Balances		(513,000)	130,661	643,661
Fund Balances - Beginning		513,000	512,273	(727)
Fund Balances - Ending	\$ 0	\$ 0	\$ 642,934	\$ 642,934

GRAVES COUNTY
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

June 30, 2005

Budgetary Information

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

The General Fund Budgetary Comparison Schedule differs from the Statements of Revenues, Expenditures, And Changes In Fund Balances - Governmental Fund for the following:

The State Local Finance Officer does not require the Jail Canteen Fund or the Building Commission Fund to be budgeted.

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**GRAVES COUNTY
COMBINING BALANCE SHEET -
NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information**

June 30, 2005

GRAVES COUNTY
COMBINING BALANCE SHEET -
NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information

June 30, 2005

	LGEA Fund	Disaster and Emergency Service Fund	Adult and Juvenile Housing Fund	Industrial Development Fund	Total Non-Major Governmental Funds
ASSETS					
Cash and Cash Equivalents	\$ 493	\$ 9,357	\$ 21	\$ 574	\$ 10,445
Total Assets	<u>\$ 493</u>	<u>\$ 9,357</u>	<u>\$ 21</u>	<u>\$ 574</u>	<u>\$ 10,445</u>
FUND BALANCES					
Unreserved:					
Special Revenue Funds	\$ 493	\$ 9,357	\$ 21	\$ 574	\$ 10,445
Total Fund Balances	<u>\$ 493</u>	<u>\$ 9,357</u>	<u>\$ 21</u>	<u>\$ 574</u>	<u>\$ 10,445</u>

The accompanying notes are an integral part of the financial statements.

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GRAVES COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information
For The Year Ended June 30, 2005

GRAVES COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information

For The Year Ended June 30, 2005

	LGEA Fund	DES Fund	Adult and Juvenile Housing Fund	Industrial Development Fund
REVENUES				
Intergovernmental	\$ 19,445	\$ 24,259	\$	\$
Miscellaneous				343,901
Interest	46	5	22	
Total Revenues	<u>19,491</u>	<u>24,264</u>	<u>22</u>	<u>343,901</u>
EXPENDITURES				
Protection to Persons and Property		36,276	373,498	
General Health and Sanitation				15
Debt Service				343,901
Administration		5,980		
Total Expenditures		<u>42,256</u>	<u>373,498</u>	<u>343,916</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>19,491</u>	<u>(17,992)</u>	<u>(373,476)</u>	<u>(15)</u>
Other Financing Sources (Uses)				
Transfers From Other Funds		27,250	373,300	
Transfers To Other Funds	(66,000)			
Total Other Financing Sources (Uses)	<u>(66,000)</u>	<u>27,250</u>	<u>373,300</u>	
Net Change in Fund Balances	(46,509)	9,258	(176)	(15)
Fund Balances - Beginning	47,002	99	197	589
Fund Balances - Ending	<u>\$ 493</u>	<u>\$ 9,357</u>	<u>\$ 21</u>	<u>\$ 574</u>

The accompanying notes are an integral part of the financial statements.

GRAVES COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information
For The Year Ended June 30, 2005
(Continued)

Total Non-Major Governmental Funds	
\$	43,704
	343,901
	73
	<u>387,678</u>
	409,774
	15
	343,901
	5,980
	<u>759,670</u>
	<u>(371,992)</u>
	400,550
	<u>(66,000)</u>
	<u>334,550</u>
	(37,442)
	47,887
\$	<u><u>10,445</u></u>

The accompanying notes are an integral part of the financial statements.

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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Tony Smith, Graves County Judge/Executive
Members of the Graves County Fiscal Court

**Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards**

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Graves County, Kentucky, as of and for the year ended June 30, 2005, which collectively comprise the County's basic financial statements, and have issued our report thereon dated June 20, 2006. Graves County presents its financial statements on the modified cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Graves County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether Graves County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing opinions on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such opinions. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.



Report On Internal Control Over Financial Reporting
And On Compliance And Other Matters Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards
(Continued)

This report is intended solely for the information and use of management and the Kentucky Governor's Office for Local Development and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a long horizontal flourish extending to the right.

Crit Luallen
Auditor of Public Accounts

Audit fieldwork completed -
June 20, 2006

**CERTIFICATION OF COMPLIANCE -
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM**

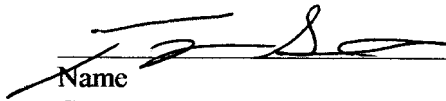
GRAVES COUNTY FISCAL COURT

**For The Fiscal Year Ended
June 30, 2005**


CERTIFICATION OF COMPLIANCE
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM
GRAVES COUNTY FISCAL COURT

For The Fiscal Year Ended June 30, 2005

The Graves County Fiscal Court hereby certifies that assistance received from the Local Government Economic Assistance Program was expended for the purpose intended as dictated by the applicable Kentucky Revised Statutes.



Name
County Judge/Executive



Name
County Treasurer